11 OCTOBER 2000

KIRTLAND AFB FAMILY HOUSING PRIVATIZATION INDUSTRY FORUM 27-28, SEPTEMBER 2000 QUESTIONS AND ANSWERS

Please note that the following responses to questions posed in connection with the Industry Forum are tentative in that the Air Force reserves the right to revise both the solicitation process and the privatization transaction in response to industry comments and other factors. Nevertheless, the following are current responses to the industry questions received to date. Please address additional questions to Kormendi \ Gardner Partners ("KGP") and the KGP Team at kafb@kgpartners.com and please visit the AFCEE privatization web site http://www.hqafcee.brooks.af.mil/dc/dch/hpdata/hpdata.asp often for updated documents, scheduling and due diligence data.

1. Where does the Successful Offeror's ("SO") minimum 6% equity go after closing?

The draft documents provide that the SO's equity remains invested in the transaction through the final permanent loan funding and is not available for, for example, payment of fees to the SO or a related party. Many related questions were raised at the Forum, and the Air Force is reviewing the specifics of these provisions. There may be changes in these provisions as a result of this review.

2. Will Offerors and lenders have an opportunity to look at documents and provide comments?

Yes. The Request for Proposals ("RFP") and its Appendices (the underlying transactional documents) will be posted on the AFCEE web site noted above. Copies of other documents can be purchased from Greenhorne & O'Mara, Inc. or inspected at the Greenhorne & O'Mara offices by appointment. Contact G&O Senior Manager Y. Jack Marcus at (email) for purchase or inspector information. Please note that most of the graphics files are in AutoCAD format, but the WHIP viewer may be preferable to AutoCAD. The WHIP viewer is downloadable at no charge from (Link from Jack).

3. Can non-profit entities participate in ownership?

Yes.

4. What percentage of bonds can be used for rehab and new construction?

Most issuers will not issue bonds until the borrower/developer can obtain some form of forward commitment certifying that it has obtained a take-out loan and/or permanent financing. For Low Income Housing Tax Credits (IRS Section 42), the 4% credits, which automatically qualify the project for tax-exempt financing may be used for rehabilitation. The 9% tax credits can be used for new construction over a 10-year period.

5. Does the government loan guarantee apply to the 6% equity investment?

No. The loan guarantee only applies to the principal amount of the privately obtained senior permanent financing.

6. Can the SO refinance?

Yes, with government approval, which will not be unreasonably withheld or delayed. The government receives a minimum of ten percent of the refinancing proceeds (a greater share if so proposed by the SO).

7. Can credit enhancements be used with tax exempt bond financing? Would that be "double dipping"?

If the SO desires to obtain a more favorable rating on the bonds to make them more attractive to investors, it may obtain additional credit enhancements from the private sector 501(c).

According to OMB, to preclude the possibility that Federal agencies will guarantee tax-exempt obligations, either directly or indirectly, agencies will: (1) not guarantee federally tax-exempt obligations; (2) not subordinate direct loans to tax exempt obligations; (3) provide that effective subordination of a guaranteed loan to a tax-exempt obligations will render the guarantee void; (4) prohibit Federal guarantees of loans funded by tax-exempt obligations; and (6) prohibit the linkage of Federal guarantees with tax exempt obligations.

8. Can low income tax credits such as Affordable Housing be used? How much is available?

According to Lynn Wehrli of the New Mexico Affordable Housing Agency, there is a \$150M tax-exempt bond cap for the state; approximately \$12M was allocated for affordable housing last year. Annual allocations are decided each January. All projects that are eligible for tax-exempt bonds are automatically eligible for tax credits, but neither the Air Force nor the KGP Team offers an opinion as to the eligibility of this project for tax-favored financing.

Applicability uncertain due to limited public access to base (i.e., military members are primary customers). This issue will be researched in more detail.

9. Will OMB scoring be jeopardized by using tax credits?

According to OMB, direct or indirect guarantees of tax-exempt obligations are expressly prohibited under Section 149(b) of the Internal Revenue Code. Guarantees of tax-exempt obligations are an inefficient way of allocating Federal credit. Assistance to the borrower, through the tax exemption and the guarantee, provides interest savings to the borrower that are smaller than the tax revenue loss to the government. Thus, the cost to the taxpayer is greater than the benefit to the borrower.

10. What is Windfall Income? Is it related to the market? Is it a true windfall account?

Windfall Income is the (additional) revenue that is generated as a result of future, legislated increases in BAH. Currently, service families contribute approximately 18% to 20% of their monthly income for housing. Secretary of Defense Cohen is proposing an initiative ("Cohen Initiative"), that would reduce the service member's out-of-pocket costs to 0%. The BAH as calculated under existing legislation, typically has fluctuated in both directions between ½% to 1%. These increases are not Windfall Income.

Windfall Income is to be applied first to principal prepayments on any Government Direct Loan, then to principal prepayments on the private senior debt, then to fund any shortfall in the Reinvestment Account.

11. What is the Gross Receipts Tax?

Gross Receipts Tax is a tax ranging from 5% to 6% that is levied on the revenue from all real estate development projects in the state of New Mexico. The tax also applies to all Federal projects.

12. What is current occupancy?

According to the Kirtland Housing Office, nearly 1,200 of the subject units are presently occupied.

13. Is there a cap on the amount in the Reinvestment Account?

Yes, consistent with the SO's pro forma.

14. Why reduce the number of units at Kirtland?

Kirtland authorities estimate that the number of units (1,164) that are required under this project is consistent with future military family housing needs.

15. What is the current grade distribution of the housing inventory?

This information is being requested from the Kirtland Housing Office.

16. What are the projected trends in grade distribution for the privatized areas?

The "Project Development Demographics" table provides this information. See section 1.3.1.5 of the "Project Summary, Existing Conditions and Project Requirements" document that was distributed at the Forum and that is available from the AFCEE privatization web site.

17. Are there any provisions for upgrades/promotions/discharges?

These provisions are set forth in the transaction documents that will be released with the RFP.

18. Where does money go when it emerges from the "waterfall" of the Lockbox Accounts?

Net cashflow other than Windfall Income may be withdrawn by the SO. Windfall Income must be applied as set forth in (10) above.

19. What are the options for receipt of BAH?

Offerors should plan on receiving rent payments in arrears because the BAH is paid at the end of the month. The Operating Agreement (an exhibit to the Lease) provides that the SO will have two options to receive payments:

- 1) Either directly from the Air Force by EFT, or:
- 2) From the military tenant

20. Can offerors submit more than one proposal? *Yes.*

21. Can Offerors be notified as to how many were downselected after Step One?

KGP presently expects to release this information.

22. What will the Step One evaluation criteria be?

These criteria are set forth at pp.12-13 of the draft PIP.

23. Is there a possibility for lowering threshold from \$25M to \$20M?

It is presently unlikely that the threshold will be reduced.

24. Is Davis-Bacon required?

Yes.

25. What are the grounds for termination?

Please refer to the transaction documents that will be released with issuance of the RFP.

26. Will offeror receive indemnification from the Air Force for environmental claims?

The draft transactional documents presently provide for no such indemnification. In the near future (but not necessarily before issuance of the RFP), KGP expects to post a brief synopsis of environmental issues on the AFCEE privatization web site.

27. What authority drives how the developer will dispose of contaminated buildings?

The SO must adhere to all applicable law (Federal, state, local) when disposing of buildings and materials.

28. Can KGP acknowledge receipt of all emails received?

Yes

29. Can the timeframe for submitting Step One materials be extended? Can the number of required pages be changed?

These points were discussed thoroughly at the Forum and by the Air Force internally. The present schedule is to issue the RFP on 20 October and the required responses for Step One by 17 November. Page limits may be reduced but that has not been decided. Offerors can begin preparing Step One information immediately without waiting for issuance of the RFP.

30. Are maintenance records available?

These are being requested from Kirtland authorities.

31. Are unit by unit surveys available?

No.

32. Could consumption rates be made available?

These are being requested from Kirtland authorities.

33. What is the occupancy rate? What is the historical rate? Are any records available? What are future projected rates?

Data on current and historical occupancy are being requested from Kirtland authorities. Future occupancy cannot be projected with accuracy, and it will depend in part upon the quality of housing offered by the SO.

34. Why is there such a low occupancy rate?

Base authorities report occupancy of nearly 1,200 units, approximately equal to the project's requirements.

35. Can you renovate instead of demolish as long as you meet the time specifications stated?

Yes.

36. Is there a web site where we can find general information such as the number of military personnel assigned to KAFB, the current BAH for KAFB, the current occupancy of the existing 1,748 units of family housing, the status of any waiting list for such housing, and the geographic location of the six parcels referred to in the "Leased Property" section of the Project Summary?

Please visit the AFCEE privatization web site noted above. This type of information may be released there.

37. The Project Summary states that the SO will the accept the BAH less 110% of reasonable utilities as the full amount of the rent. Since the SO has the responsibility to pay the cost of the utilities, is it reasonable to assume that the SO will receive the full amount of the BAH and consider a portion of it as rent and the balance (the 110% of reasonable utilities) as a payment on the utility costs?

Yes.

38. Does the responsibility for the payment of utilities shift to the resident after a unit is individually metered?

Yes.

39. What was the construction date(s) of the 211 units? Do any of these units need to be renovated? Are all of the other 1,573 units currently habitable?

The 211 New Pershing units were constructed in 1996-1997 and initially occupied in 1997. It is up to the SO to determine whether renovation of those or other units would be cost effective, but the draft transactional documents do not require such renovations.

Base authorities report that over 900 of the other units are presently occupied. Neither the Air Force nor KGP offers an opinion as to "habitability" of any of the subject units in any legal sense of the term.

40. Why would the Air Force want all of the housing units to be demolished at the end of the ground lease?

The Air Force wants to preserve that option.

41. Are there any current Phase 1's on the 6 parcels to be leased to the SO?

No.

42. The section entitled "Long Term Modernization" (which appears on page 4 of the Project Summary states, "the SO shall complete a modernization ... (including) updating unit functionality and space requirements". What is meant by the term "unit functionality and space requirements"?

The nature of the 25-year modernization will be determined with respect to then prevailing housing standards.

43. The section entitled "Financing" starts at the bottom of page 4 and continues at the top of page 5 of the Project Summary. The second major bullet point at the top of page 5 states "The Air Force must pay a subsidy cost to provide the financial vehicles." What is meant by this statement?

Simply that the Air Force budget is charged the estimated ("scored") cost of providing the guarantee and the subsidized loan.

44. In the section entitled "Equity Contribution" (which appears on page 5) there appears to be a conflict between the two bullet points. The first requires an cash equity of "6% of total project costs". The second requires a cash equity of "at least 6% of project costs, net of SO's fees and credit support costs".

The minimum six percent equity test must be met at both closing and at permanent loan funding(s).

45. In the section entitled "Rental Income" (which appears on page 6), reference is made to EFTs for "each occupied unit". Will there be one EFT for all the occupied units or one EFT for each unit?

The total of the BAH's owed to the SO for a particular month is determined from the occupied units. The EFT for that will be a single payment in arrears.

46. In the section entitled "Property Taxes" which appears on page 6, reference is made to the SO being responsible for any applicable property taxes. Are there currently any property taxes assessed against the six parcels to be leased to the SO? Is there any property owned by the Air Force at Kirtland AFB against which any property taxes are being assessed?

Kirtland authorities report that no property tax is presently paid on the subject parcels or any other Air Force owned property at Kirtland. KGP is requesting an indication from the local taxing authority as to whether there will be any property tax assessment on the subject leasehold or improvements.

47. The section entitled "Lockbox Agreement" starts on the bottom of page 6 and continues on to the top of page 7. With regard to the second bullet point at the top of page7, what is meant by "(A)ny unused funds ... shall follow the same cash flow priority"?

Net cashflows (other than Windfall Income) in excess of pro forma projections flow through the "waterfall" of the Lockbox Accounts.

48. Does the Air Force have specifications regarding which paygrades shall go into which parcels (other then the 13 Sr. Officers in East Capehart B)?

No.

49. Can you give us a snapshot of the number of units by square footage, number of bedrooms, and size by rank for the units that are currently occupied?

This information is being requested form Kirtland authorities.

50. Can you give us the same type of table for the 1753 existing units so that we can calculate the square footage of the units to be demolished?

This information is being requested form Kirtland authorities.

51. The number of units, by bedroom size, does not track from page 5 to page 31. For example, Page 5 shows 831 2-Bedroom units, yet Page 31 indicates 758. I assume the difference comes in the 211 units that were constructed 3 years ago. Can you provide a Page 31-type schedule for the 211 units?

This information is being requested form Kirtland authorities.

52. Page 31 gives minimum square footage for 3 sizes of 3-Bedroom units and 3 sizes of 4-Bedroom units. Which paygrades get which minimum square footages?

This information is being requested form Kirtland authorities.

53. Can Phase II be at least 90 days with a downselect to two rather than five Offerors?

The requests are noted, but there is no commitment on either at this time.